



San Juan County

QUARTERLY FINANCIAL REVIEW

4TH QUARTER 2012

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No drama, but 2012 brought signs of recovery



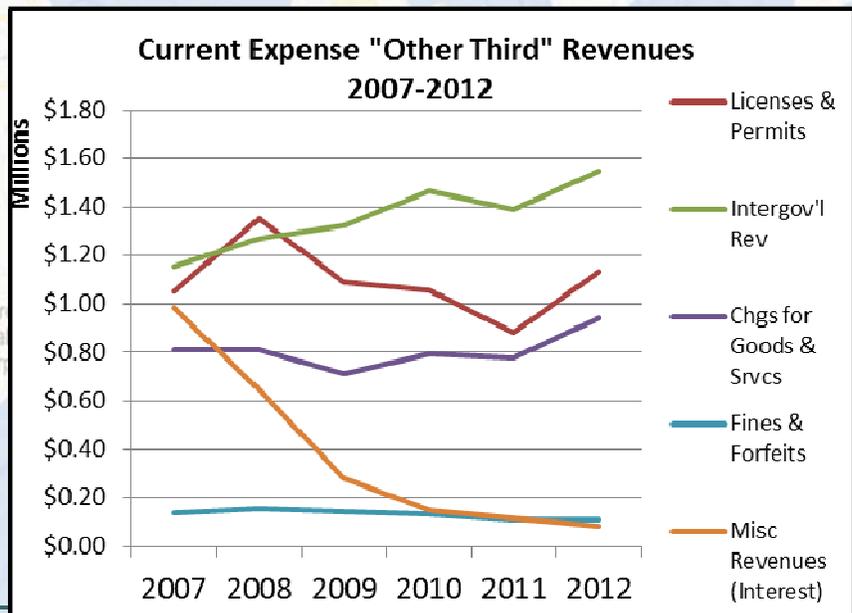
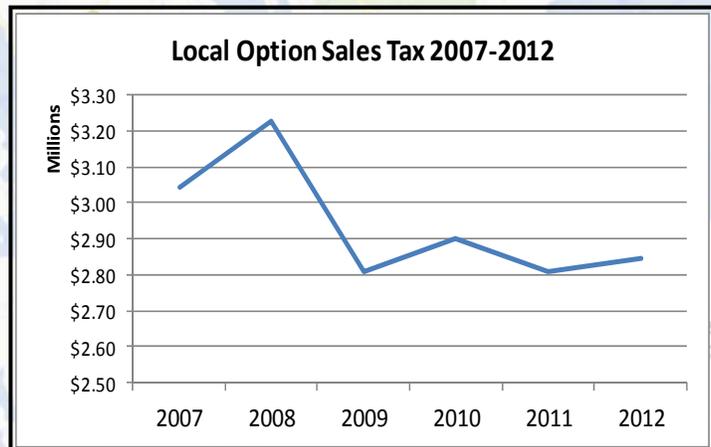
2012 was not a dramatic year for San Juan County. Our unemployment did not go away, our housing inventory did not clear, and our county budget did not magically balance. But in several sectors, signs of recovery were apparent.

The sectors which are leading us out of recovery are the same ones that led us in. In April of 2009, the County Council embarked on a one million dollar reduction in the County budget for that fiscal year. Although there had been some budget trimming already in 2008, this was the first indication that the global recession was going to hit hard locally.

The message in April of 2009 was that although the county's largest sources of revenue – sales tax and property tax – appeared stable, what was referred to then as "the other third" of revenues were failing to perform. At that time, property tax and sales tax each represented about 1/3 of the county's general fund revenue, with the other third comprised of a variety of miscellaneous revenues, many of them service-based. Charges for goods and services, for example, as well as licenses and permits, fines and forfeits, and interest all fall into this category.

Later in 2009, sales tax went the way of the other third, ultimately dropping about 13% from the previous year, a dip from which it has yet to recover. Property taxes – our most reliable source of revenue – came in as usual, but most other revenue sources dipped, many to the lowest point in years.

Since 2009, county revenues have foundered. Except for voter-approved increases in property tax and sales tax, revenues have reflected



(Continued on page 2)

2012 brought signs of recovery (continued)

the global and local economy, with loss of jobs, a sharp drop in home sales and construction, and little economic growth, even after the recession officially ended in June of 2009.

2012, as noted above, brought welcome relief. Property taxes continued strong, and sales taxes crept up a bit. But the real news was in the “other third.” It wasn’t all good news. Interest income, with artificially low rates and less cash to invest, continued to drop, and fines & forfeits, always a small source of revenue, dropped again. But the revenue sources that suggest economic growth improved. In particular, licenses, permits, and charges for goods and services in Community Development and Planning bested 2011’s results by almost 35%. In addition, intergovernmental revenue to the general fund hit its highest point ever.

Outside the general fund, some special revenue sources also showed significant improvements. Lodging taxes are additional sales taxes collected on accommodations within the county. After dropping notably in 2009, lodging tax revenue had not grown a lot since. In 2012, it increased by 15%. This revenue indicates that the county still has a vibrant tourism economy.

Real estate sales, after years of decline, also increased significantly in 2012 – about 60% across the county. Average prices did not rise, but a significant increase in the number of transactions made up for price. Real estate sales generate real estate excise tax, which goes both to the Land Bank and to the County’s Capital Improvement Fund. 2012’s activity resulted in a 60% increase in Land Bank REET over the previous year.

Six Year Revenues by Type, General Fund and County-Wide

GENERAL FUND REVENUE	2007	2008	2009	2010	2011	2012
Taxes	9,009,444	9,124,015	8,651,413	9,905,207	10,002,309	10,161,053
Licenses and Permits	1,053,615	1,353,350	1,090,380	1,056,685	880,404	1,133,259
Intergovernmental Revenue	1,155,298	1,272,198	1,323,551	1,463,953	1,391,175	1,546,566
Charges for Goods and Services	808,674	810,150	714,613	796,270	779,708	940,501
Fines and Forfeits	137,497	156,919	142,089	134,643	110,231	109,323
Miscellaneous Revenues	987,880	649,251	280,448	146,919	118,180	82,198
Nonrevenues	0	0	0	0	0	0
Other Financing Sources	107,001	160,790	273,728	369,492	137,921	225,347
General Fund Total	13,261,416	13,528,681	12,478,231	13,875,179	13,421,939	14,200,259
COUNTY REVENUE	2007	2008	2009	2010	2011	2012
Taxes	17,751,591	16,396,573	15,236,547	16,696,347	17,153,130	18,726,558
Licenses and Permits	1,111,021	1,412,254	1,136,793	1,107,560	931,855	1,193,825
Intergovernmental Revenue	7,923,997	8,610,055	10,141,080	9,750,609	9,700,235	9,505,938
Charges for Goods and Services	5,323,384	4,516,542	4,638,754	4,500,475	4,402,661	4,625,663
Fines and Forfeits	143,431	162,916	147,225	140,611	115,336	111,104
Miscellaneous Revenues	3,570,891	2,972,957	2,608,688	2,571,155	2,333,015	2,302,476
Nonrevenues	38,471	3,059	-168,855	1,364,502	578,001	2,019,771
Other Financing Sources	5,242,248	5,761,063	7,948,356	5,424,054	5,833,805	8,398,576
County Total	41,105,034	39,835,419	41,688,588	41,555,313	41,048,038	46,883,911

LEGEND:



RED—Annual performance in this area is a **cause for concern**

YELLOW—Annual performance indicates this **may become an area of concern** in the future

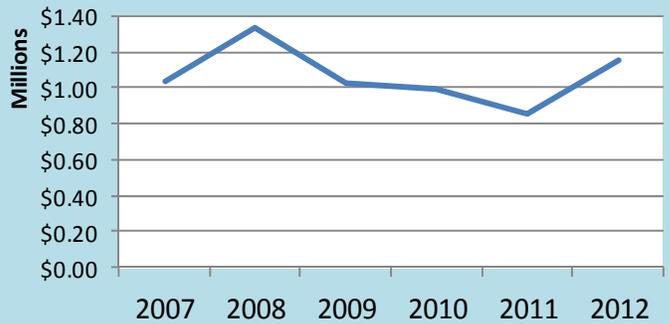
GREEN—Annual performance **within expectations** set in budget

Positive Economic Signs of 2012



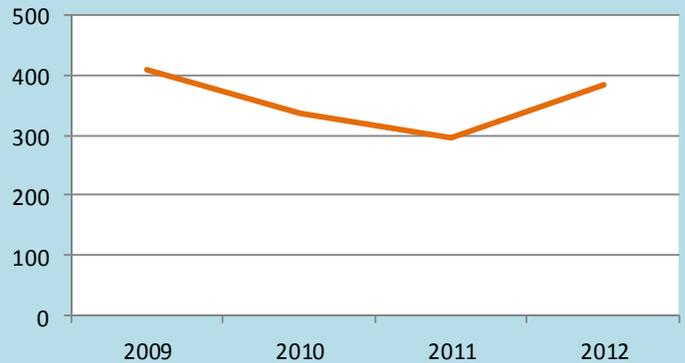
San Juan Island Hospital District expanded its services from a medical clinic to a critical access hospital, operated under contract by Peace Health Medical Group.

Licenses, Permits & Charges for Services in CD&P 2007-2012

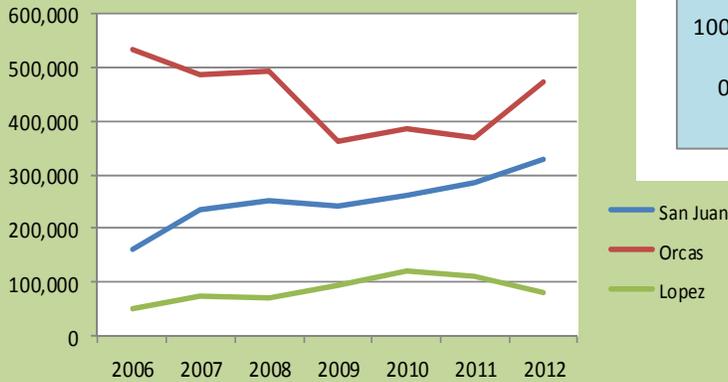


Both revenue from planning and building activities, and total building applications received, increased markedly in 2012.

Building Applications Rec'd

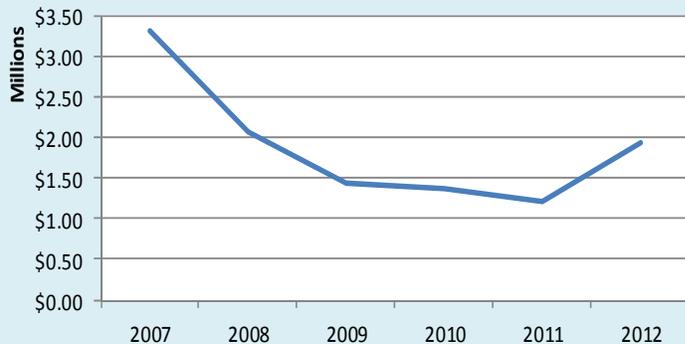


SJC Lodging Taxes by Island, 2006-2012



Lodging Tax revenues reached their highest point ever in 2012, with particular improvement on Orcas Island, which had suffered since the closing of Rosario Resort in 2009.

Land Bank Real Estate Excise Tax, 2007-2012



More real estate sales generated more real estate excise tax revenues for the Land Bank and the County's Capital Improvement Fund.



General Fund Revenue

When we talk about budget, we tend to focus on the general fund, because the general fund receives most of the unrestricted revenue that comes into the County. That is, other funds receive money which may be spent only on designated projects or in designated ways, but most of the revenue that goes into the general fund is unrestricted in use.

Because of that, most discretionary spending in the County is out of the general fund. It is there that we have to decide how much to spend, for example, on public health, law and justice, and code enforcement. General funds may also be used to supplement special revenues, such as by supporting Parks and Fair or supplementing other sources of capital funding.

2012 general fund **revenues** reached \$14,198,247, barely exceeding budget, by .3%. Of that, \$10,163,053—72%—came from **Taxes** (42.4% from property taxes, 25.2% from sales taxes, and the balance from miscellaneous taxes).

After taxes, **Intergovernmental Revenue** is the general fund’s second largest source of revenue. Intergovernmental revenue includes grants, “in-lieu” payments, cost reimbursements (e.g., for part of the Prosecutor’s salary), and charges for services (e.g., the Town’s contract for law enforcement services).

Charges for Goods & Services are received in several departments, including the Auditor’s Office (licensing and recording services), the courts (various court fees), Elections (reimbursement by other districts for election services), Health and Community Services, Sheriff, and, of course, Community Development and Planning. CD&P revenue increased significantly in 2012, as noted on page 1, because of increases in permitting and planning activities.

Dept #	Current Expense Revenue by Dept	2007 Actuals	2008 Actuals	2009 Actuals	2010 Actuals	2011 Actuals	2012 Budget	2012 Actuals
00	General	4,654,823	4,722,338	4,821,895	5,967,249	5,941,499	6,075,639	6,037,723
13	County Administration	0	7,582	14,518	815	2,118	4,685	4,719
16	Assessor	7,263	7,238	57,285	52,399	5,596	100,200	62,537
19	Auditor	187,602	197,182	241,011	267,825	266,980	256,000	265,779
22	Board of Equalization	0	197	0	0	0	0	0
25	Facilities	69,163	17,568	22,465	19,271	19,181	19,200	16,144
31	Clerk	170,574	128,327	124,240	109,120	134,019	115,669	101,788
34	County Council	101	1,795	54	1,090	40	0	1,322
37	Dispatch	438,938	428,003	300,441	468,235	409,512	430,481	430,367
40	Community Dev’t & Plng	1,040,158	1,333,003	1,090,915	1,000,091	949,415	1,268,537	1,289,395
43	County Agent	28,105	10,982	19,038	9,326	3,736	1,400	2,433
46	District Court/Probation	325,533	355,215	311,923	320,986	292,609	294,563	307,187
49	Election Reserve	52,065	59,870	39,805	115,816	27,536	57,700	107,458
52	General Administration	11,982	91,295	152,132	115,097	132,779	166,036	123,782
55	Health & Community Services	629,412	571,278	527,835	527,546	478,803	575,420	621,731
58	Jail	100	13,310	13,728	9,723	10,717	11,000	13,048
61	Juvenile Court	1,020	2,092	850	1,345	1,549	500	325
64	Law Library	1,677	0	0	1,894	0	0	0
73	Prosecuting Attorney/Coroner	92,658	147,192	150,046	150,405	148,609	147,980	151,376
76	Sheriff	321,240	425,829	460,231	419,089	409,610	434,287	454,974
82	Superior Court	9,742	9,664	11,456	13,240	20,595	17,440	10,028
85	Treasurer	5,217,253	4,996,713	4,116,354	4,302,607	4,165,025	4,175,311	4,196,118
	County Current - General	13,259,409	13,526,673	12,476,222	13,873,169	13,419,928	14,152,048	14,198,234

General Fund Expenditures



Expenditures in the general fund, which is also called the “Current Expense” Fund, support a wide range of government activities, including legislation (County Council), administration (County Administrator/Manager), finance (Assessor/Auditor/Treasurer), law and justice (courts, Prosecutor and Sheriff), health & community services, planning and development services, elections, and WSU extension.

No Current Expense departments exceeded budget in 2012 by any significant amount. The fund in total finished at \$13,699,511, or 96.8% of budget. This year-end percentage represents an improvement, as the Current Expense Fund finished at 99.62%, 97.91%, and 98.38% of budget in 2009, 2010, and 2011, respectively. In the “old days,” before the recession, Current Expense typically finished the year at about 96% of budget.

General fund expenditures by department for the last five years are displayed below.

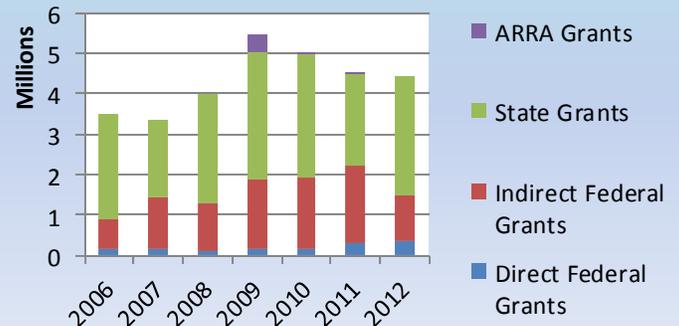
Dept #	Current Expense Expenditures by Dept	2007 Actuals	2008 Actuals	2009 Actuals	2010 Actuals	2011 Actuals	2012 Budget	2012 Actuals
00	General	27,181	20,958	1,697	0	0	42,750	41,345
13	County Administration	453,016	611,823	560,791	614,380	627,416	696,642	692,655
16	Assessor	586,506	698,102	722,453	653,855	687,901	829,294	830,450
19	Auditor	720,833	745,949	686,271	696,976	657,243	701,808	683,427
22	Board of Equalization	11,331	18,977	21,027	13,199	13,186	7,368	2,586
25	Facilities	480,264	546,713	477,800	466,900	488,719	540,334	513,390
28	Civil Service	17,204	20,185	15,379	12,547	15,005	17,008	16,435
31	Clerk	349,667	365,538	362,583	331,659	326,637	354,268	352,524
34	County Council	552,565	612,821	499,744	457,311	476,070	504,658	486,129
37	Dispatch	354,701	476,515	715,490	693,780	676,419	675,950	681,010
40	Community Dev't & Plng	1,406,455	1,548,110	1,342,932	1,330,610	1,275,894	1,257,807	1,258,077
43	County Agent	201,520	232,477	207,487	184,921	175,251	203,441	197,500
46	District Court/Probation	590,445	628,598	681,070	668,740	644,553	643,123	597,010
49	Election Reserve	180,907	196,190	168,979	223,629	190,609	202,017	203,424
52	General Administration	709,214	689,791	803,026	890,463	1,036,487	1,065,387	885,229
55	Health & Community Services	1,209,177	1,454,396	1,238,288	1,286,306	1,253,162	1,189,303	1,166,372
58	Jail	399,068	354,938	333,944	331,963	272,527	373,007	320,754
61	Juvenile Court	372,028	353,182	375,534	355,055	358,091	329,839	307,149
64	Law Library	16,573	17,521	32,336	26,659	25,276	20,568	20,680
67	Operating Transfers	176,245	234,717	135,666	331,080	309,467	464,348	433,724
73	Prosecuting Attorney/Coroner	819,286	898,921	939,577	889,785	948,148	949,619	944,749
76	Sheriff	2,147,797	2,328,636	2,351,187	2,425,832	2,376,891	2,551,845	2,552,903
82	Superior Court	173,249	118,123	141,538	156,187	177,058	178,189	168,869
85	Treasurer	347,734	346,687	374,575	332,765	339,034	353,475	343,119
	County Current - General	12,302,966	13,519,868	13,189,374	13,374,602	13,351,044	14,152,048	13,699,511

General Fund Grants

General Fund Grants supports services in seven general fund departments (WSU Extension, Health, Juvenile Court, Planning, Prosecutor & Sheriff) and one special purpose fund (Emergency Management) with both repetitive grants and occasionally one-time grants. Grant revenues and expenditures are tracked in a separate Grants Fund in order to ensure appropriate tracking of costs for grant-reimbursement purposes. Most grants must be approved by Council, and most have staffing and services associated with them that would require a policy and budget decision to continue if the outside funding ended. Grants requiring a local match find that match in the associated general fund department.

Revenue and expenditures of the Current Expense Grants Fund for the last five years are displayed below.

Grant Revenue to San Juan County, 2006-2012



Dept #	Grants Fund Revenue by Dept	2007 Actuals	2008 Actuals	2009 Actuals	2010 Actuals	2011 Actuals	2012 Budget	2012 Actuals
00	Current Expense Grants Clearing	1,450	0	0	0	0	1,885	0
37	Dispatch	40,972	0	0	0	0	0	0
40	Planning	403,029	221,291	357,844	385,094	485,813	707,661	500,907
43	WSU Extension	0	0	0	0	500	0	500
55	Health & Community Services	1,423,029	1,728,786	1,756,319	1,618,950	1,467,096	1,809,310	1,507,594
61	Juvenile Court	87,882	85,738	98,540	86,372	106,170	132,656	97,219
71	Emergency Management	155,394	140,593	145,949	137,889	117,858	100,927	82,749
73	Prosecutor	190,272	139,655	250,922	233,125	182,463	224,262	216,623
76	Sheriff	30,634	58,743	118,863	200,687	111,446	132,441	107,300
	Current Expense Grants Fund	2,332,662	2,374,806	2,728,437	2,662,117	2,471,346	3,109,142	2,512,892

Dept #	Grants Fund Expenditures by Dept	2007 Actuals	2008 Actuals	2009 Actuals	2010 Actuals	2011 Actuals	2012 Budget	2012 Actuals
00	Current Expense Grants Clearing	1,976	0	0	119,152	0	0	4,745
40	Planning	258,678	256,778	436,894	283,622	536,778	707,661	521,059
43	WSU Extension	0	0	0	0	205	0	535
55	Health & Community Services	1,386,911	1,712,558	1,584,385	1,450,727	1,385,451	1,811,195	1,739,198
61	Juvenile Court	78,851	81,025	106,311	82,553	99,437	132,656	78,684
71	Emergency Management	166,284	141,826	97,925	130,380	138,660	100,927	95,102
73	Prosecutor	178,183	177,012	206,891	199,175	206,437	224,262	208,736
76	Sheriff	97,323	52,003	166,496	107,885	104,672	132,441	97,633
	Current Expense Grants Fund	2,168,206	2,421,202	2,598,902	2,373,494	2,471,640	3,109,142	2,745,692

Technically, any fund which receives less than 20% of its revenue from restricted revenue sources is a “general fund” (see discussion of fund types on page 11.) When we report to the State Auditor on the County’s finances, we roll all “general funds” into a single fund for reporting. Thus, the “general fund” as reported includes not only the Current Expense Fund and Current Expense Grants Fund, but also includes four other, smaller funds which are primarily funded by transfers from Current Expense. Those four funds are: The Budget Stabilization Fund, the Veterans’ Assistance Fund, the Insurance Cumulative Reserve Fund, and the Emergency Management Fund.

The Budget Stabilization Fund is a “rainy day” reserve fund created in 2009. To date, it has only received transfers-in, and has not yet been drawn on as a reserve fund. The Veterans’ Assistance Fund is a mandated fund which provides assistance to local veterans. It is funded by an earmarked property tax levy. The SJC-FH Emergency Management Fund is a fund jointly financed by the County and the Town of Friday Harbor to provide emergency management services to everyone in the county.

The final “general” fund, the Insurance Cumulative Reserve Fund, is funded by contributions from all funds (except County Roads) within the County. Insurance claims against all funds (except Roads) are paid out of it. This fund showed an unusual amount of activity in 2012, because of an accident involving the Sheriff’s boat Guardian. Repair payments, as well as insurance reimbursements, were run through the Insurance Reserve Fund. All but \$5,000 of the cost of repair was reimbursed by insurance.

Revenue and expenditure of all “other” general funds for the last five years are displayed below.

Fund #	Other General Funds Revenue	2007 Actuals	2008 Actuals	2009 Actuals	2010 Actuals	2011 Actuals	2012 Budget	2012 Actuals
0003	Budget Stabilization	0	0	0	0	85,000	85,000	0
0004	Veterans' Assistance	26,236	30,570	17,450	52,756	30,000	90,078	40,000
0005	Insurance Cumulative Reserve	23,239	2,286	10,423	94,370	55,319	148,796	194,654
0007	SJC Dept of Emergency Management	85,611	63,744	53,064	87,300	98,439	84,230	84,912

Fund #	Other General Funds Expenditures	2007 Actuals	2008 Actuals	2009 Actuals	2010 Actuals	2011 Actuals	2012 Budget	2012 Actuals
0003	Budget Stabilization	0	0	0	0	0	85,000	0
0004	Veterans' Assistance	43,664	24,261	29,888	47,613	22,167	90,078	46,448
0005	Insurance Cumulative Reserve	0	0	33,487	64,829	35,106	148,796	148,796
0007	SJC Dept of Emergency Management	92,255	77,417	83,957	73,986	105,761	84,230	84,176

Internal Service Funds

Internal service funds are defined as funds which account for the financing of goods or service provided by one department or agency to other departments or agencies of the same gov-

ernment, or to other governments, on a cost reimbursement basis. The costs may be allocated to other funds or departments on an annual, “average-use” basis, or may be directly charged out as services are provided.

The Information Technology (IT) Services fund provides computer and telephone services to all departments. This fund is currently being reorganized to centralize all IS and GIS services within the County in one department. This change is expected to provide the County better, more integrated services at lower overall cost. Revenue and expenditures of IT for the last six years are reported below.



Fund #	Internal Service Funds - Information Technology	2007 Actuals	2008 Actuals	2009 Actuals	2010 Actuals	2011 Actuals	2012 Budget	2012 Actuals
5021	Information Tech - Revenue	551,735	602,662	514,874	550,774	514,054	561,137	504,620
5021	Information Tech - Expenditures	566,182	603,114	525,682	536,791	463,945	561,137	504,318

Special Revenue Funds

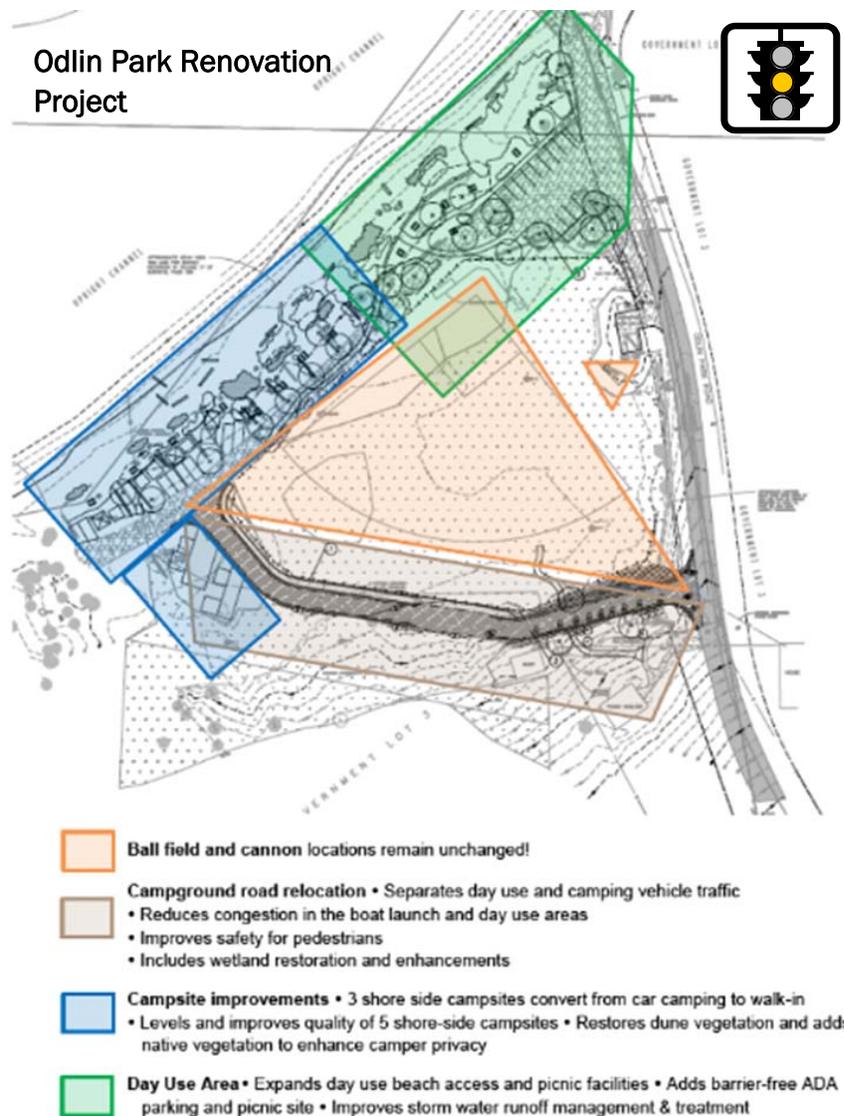
Special revenue funds are funds used to account for proceeds and uses of revenues which are restricted in use to expenditure for specified purposes. For example, the San Juan County Conservation Area (Land Bank) Fund receives the special real estate excise tax adopted for the Land Bank, plus other dedicated revenues, and uses those revenues exclusively for Land Bank purposes. Similarly, the Lodging Tax Fund receives lodging tax revenues and uses them to promote tourism; the Dog License Fund receives dog license fees and uses them to support dog licensing activities and impound services; and the Affordable Housing Fund receives state and local recording surcharges which are dedicated to promoting affordable housing and to fighting homelessness, and uses them for those purposes.

The big news in special revenue funds in 2012 was the large increase in **Land Bank** real estate excise tax. Based on the strength of that revenue, the County Council authorized the refunding of some existing Land Bank debt and the issuance of one million dollars in new Land Bank debt to make it possible for the Land Bank to purchase additional properties while both interest rates and property values are low. Since loan proceeds and payments show up as revenue and expenditures in cash-basis entities such as San Juan County, 2012 shows a large increase in both revenue and expenditures for the Land Bank. In fact, there were only minor acquisitions by the Land Bank during 2012.

Revenues—but not expenditures—in **County Parks and Fair** were also markedly up. Revenue from all parks fees were up about 12% over 2011. In addition, the County issued a \$450,000 general obligation bond in 2012 to cover the remaining costs of the Odlin Park project. The funds were received in late November, but were

not expended during 2012. Thus Parks revenues in 2012 were about \$400,000 higher than normal, but expenditures were similar to previous years—and about \$400,000 under budget.

The Odlin Park project is expected to be completed in 2013. The design goal is to provide more recreational opportunities for local residents and visitors while preserving function of the wetlands and old growth forest within the park's boundaries. When complete, the improvements will include a new group camping area, major expansion and enhancements to the day use area, an upgraded drinking water system, wetland restoration, better campground access and the relocation of a road that divided an open recreation area from the shoreline picnic area. Because of unexpected extraordinary expenses in past years, we remain



Special Revenue Funds (continued)

cautious but optimistic about the outcome of this project. In addition, Parks has several additional capital projects ahead of it, some of which have been budgeted for 2013. The need to both fund and manage these projects will remain a challenge for Parks and Fair management.

The two **lodging tax funds** are the other funds which exceeded revenue expectations in 2012 (budgeted revenue in the table below appears higher than actual because of beginning cash included in revenue). Because spending lags revenue in those funds, expenditures in 2012 were not markedly up, but will increase in 2013 because of the availability of funds collected in 2012. In addition, revenue to the Auditor's Document Preservation Fund appears artificially high, because of the repayment of \$200,000 of interfund loans to Solid Waste during 2012.

Special revenue funds revenues and expenditures for the last six years are shown below.

Fund #	Special Revenue Funds Revenue	2007 Actuals	2008 Actuals	2009 Actuals	2010 Actuals	2011 Actuals	2012 Budget	2012 Actuals
1021	SJC Conservation Area Fund	4,097,588	3,620,283	2,261,990	2,311,080	2,097,155	6,112,999	7,101,717
1031	Land Bank Stewardship & Management	524,059	614,850	559,480	429,170	249,969	505,998	11,826
1041	SJC Noxious Weed Control	76,185	74,895	139,176	139,092	137,625	234,209	143,901
1091	San Juan County Parks & Fair	966,385	1,025,977	1,047,639	1,196,115	1,348,670	1,734,387	1,725,896
1101	Treasurer's Operation & Maintenance	14,539	18,757	155	4,017	4,872	11,981	7,596
1111	Dog License	18,601	19,130	19,304	17,902	18,817	25,356	18,531
1191	Enhanced 911	171,960	142,572	216,723	164,796	197,835	291,216	290,307
1211	Multipurpose Facilities Fund	397,850	409,293	347,508	383,235	383,429	504,922	439,170
1221	Lodging Tax Fund	397,622	409,293	347,508	383,231	383,429	489,892	442,152
1251	Auditor Document Preservation	100,836	92,203	85,685	65,204	64,385	486,754	261,274
1271	Crime Victims	13,947	16,252	13,981	11,801	11,874	42,873	5,753
1281	Mental Health Tax Fund	0	0	227,850	372,684	855,268	1,260,603	733,007
1921	Housing & Septic Loans	77,528	479,386	47,774	868,660	103,386	876,451	206,663
1951	Public Facilities Improvement Receiving	366,857	411,886	344,167	342,791	552,244	1,084,066	452,891
1961	Affordable Housing Fund	97,343	99,404	138,557	153,463	231,815	419,089	206,421
1971	Criminal Justice Receiving Fund	161,760	158,592	171,853	180,638	166,322	270,528	154,701

Fund #	Special Revenue Funds Expenditures	2007 Actuals	2008 Actuals	2009 Actuals	2010 Actuals	2011 Actuals	2012 Budget	2012 Actuals
1021	SJC Conservation Area Fund	4,304,722	6,103,129	3,655,954	4,930,758	3,221,667	6,112,999	5,294,502
1031	Land Bank Stewardship & Management	303,631	436,362	560,375	479,036	406,100	505,998	415,751
1041	SJC Noxious Weed Control	81,407	75,913	111,773	106,757	103,135	234,209	117,500
1091	San Juan County Parks & Fair	967,074	977,652	1,057,913	1,117,474	1,431,484	1,734,387	1,291,218
1101	Treasurer's Operation & Maintenance	25,771	23,740	100	312	125	11,981	155
1111	Dog License	17,414	19,952	16,904	20,851	18,920	25,356	18,537
1191	Enhanced 911	231,204	371,843	297,204	226,477	242,360	291,216	288,379
1211	Multipurpose Facilities Fund	383,865	406,449	384,611	349,170	339,246	504,922	353,640
1221	Lodging Tax Fund	358,730	375,875	386,935	347,949	377,336	489,892	369,753
1251	Auditor Document Preservation	3,981	42,691	107,960	349,843	86,592	486,754	61,856
1271	Crime Victims	0	10,000	57,000	21,366	0	42,873	15,633
1281	Mental Health Tax Fund	0	0	0	286,294	592,906	1,260,603	658,613
1921	Housing & Septic Loans	113,430	428,601	149,897	916,671	226,290	876,451	158,748
1951	Public Facilities Improvement Receiving	141,367	251,336	373,432	949,194	311,577	1,084,066	285,834
1961	Affordable Housing Fund	49,895	65,394	103,558	188,033	193,545	419,089	204,604
1971	Criminal Justice Receiving Fund	160,790	160,790	188,790	180,790	160,790	270,528	160,790

Public Works funds include three different types of funds: County Roads is a special revenue fund, Equipment Rental & Revolving (ER&R) is an internal service fund, and the Solid Waste and Stormwater funds are enterprise funds. Enterprise funds act as small “enterprises,” or businesses, within a government. They may be used to report any activity for which a fee is charged to external users, and are required when there is a legal requirement or policy decision to recover cost.

County Roads is the largest fund outside of the Current Expense Fund, and has its own operating tax levy. It is difficult to compare revenues and expenditures of the Roads Fund from year to year, because the fund is very project-driven. That is, a single road project can cause revenue and expenditures to spike, sometimes in the same year, sometimes in multiple years. Some of the significant projects completed by Roads in 2012 included:

- Sign Replacement Project on Shaw Island
- Obstruction Pass Float and Pile Replacement design and bid (construction in early 2013)
- Mount Baker Road Wetland Mitigation Project
- False Bay Drive gravel road conversion

After seeing fund balance crash in 2009, Roads adopted in 2010 a sustainable budget plan which included a significant reduction in FTEs (full-time equivalent employees). Roads Fund FTEs dropped about 10 in 2010, with plans for more reductions in subsequent years. The relatively new Public Works Director and County Engineer continue to review and refine their vision for the Roads program.

Still, staff reductions and judicious service reductions over the past couple of years have allowed the Roads Fund to begin to rebuild its reserves. In addition, the County has been reducing—to zero, for 2013—the amount of levy ca-

capacity taken from the Roads Fund to supplement the general fund. This “shift” of road fund levy capacity has been used for the past six years, and intermittently before that, to supplement the general fund in times of need. As part of the strategy of achieving a sustainable budget for all funds, that shift has been discontinued for 2013. While this is a move in the right direction, Roads still has a way to go to reach a healthy fund balance.

Spending in the **ER&R Fund** is heavily influenced by acquisitions of capital equipment. With little capital spending in 2012, ER&R was at its lowest expenditure level since 2009. For 2013, with the upcoming closure of most solid waste operations, ER&R is planning to re-evaluate its equipment needs and pricing.

Stormwater capital projects continue to be limited by funding. Following the stormwater referendum of 2007, which overturned the original stormwater ordinance, a new ordinance implemented adequate operational funding but inadequate capital funding. As a result, stormwater projects have been limited primarily to those funded by outside sources.



Solid Waste, after years of declining operations, began in 2012 the process of largely shutting down as a County operation. Operations on each major island will be continued by different organizations.

On Lopez Island, a County-established and voter-funded Lopez Solid Waste Disposal District (LSWDD) began operations on January 1, 2013. Permits and formal agreements are still in the works.

Orcas Recycling Services won the right to operate solid waste services on Orcas, after an RFP (request for proposal) process. ORS is expected to take over services at the transfer station on or about April 30, 2013.

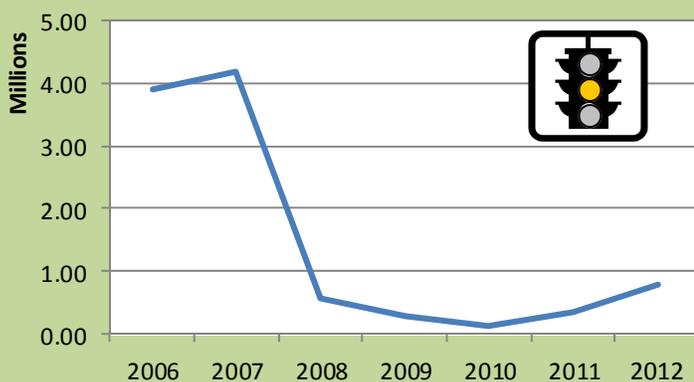
Kentech Energy USA won the RFP process on San Juan Island. Following appropriate permits and contracts, Kentech, through its US subsidiary Lautenbach Industries, is expected to take over the San Juan drop box facilities some time in May.

San Juan County Public Works is planning to co-sponsor a household hazardous waste collection event with each of the operators in April.

2012 ending cash in the Solid Waste funds appears adequate to get us to the end of these transition periods.



Roads Fund Balance 2006-2012



Fund #	Public Works Funds Revenue	2007 Actuals	2008 Actuals	2009 Actuals	2010 Actuals	2011 Actuals	2012 Budget	2012 Actuals
1121	County Roads	7,142,722	6,761,843	10,635,009	7,052,673	7,639,864	10,232,529	7,688,015
4011	Solid Waste Fund	2,499,169	2,585,466	2,336,191	2,123,330	2,686,924	2,532,661	2,258,495
4017	Solid Waste Projects Fund	340,503	488,942	256,659	1,516,390	938,804	1,483,155	1,374,133
4151	Stormwater Utility Fund	463,556	180,925	417,296	340,667	338,089	760,404	348,002
4157	Stormwater Utility Capital Projects	264,551	0	54,431	658,590	221,257	146,754	227,841
5011	Equipment Rental & Revolving	2,396,796	2,125,991	2,383,607	2,026,011	2,219,120	4,571,932	2,308,888

Fund #	Public Works Funds Expenditures	2007 Actuals	2008 Actuals	2009 Actuals	2010 Actuals	2011 Actuals	2012 Budget	2012 Actuals
1121	County Roads	7,003,178	10,383,373	10,962,933	7,183,217	7,445,347	10,232,529	7,245,009
4011	Solid Waste Fund	2,416,422	2,757,146	2,452,349	2,319,752	2,000,129	2,532,661	2,065,600
4017	Solid Waste Projects Fund	383,712	686,919	560,186	361,412	1,219,525	1,483,155	1,156,985
4151	Stormwater Utility Fund	528,682	337,329	180,059	513,177	119,797	760,404	156,435
4157	Stormwater Utility Capital Projects	6,081	54,577	74,192	598,215	409,366	146,754	81,913
5011	Equipment Rental & Revolving	2,872,893	2,036,620	1,395,599	1,839,816	2,428,177	4,571,932	1,466,825

San Juan County has one debt service fund, called the “**Bond Redemption Fund.**” Debt payments for all funds except enterprise funds are made out of the Bond Redemption Fund. Revenue and expenditures in 2012 were down in the Bond Redemption Fund because of the new Land Bank bond issue, which funded 2012 payments on existing Land Bank debt.

The County also has one capital projects fund, called the “**Capital Improvement Fund.**” Capital funds may be used to accumulate and manage funds for large capital projects. The Capital Improvement Fund saw increased revenue in 2012, with the adoption of the second 1/4 % real estate excise tax in 2011, and the upturn in the real estate market in 2012. This is good news, after recent down economic years have seen a neglect of needed capital repairs and improvements. A Capital Improvement Plan (CIP) Committee within the County is currently working to prioritize capital projects for funding.

Debt & Capital Funds



Fund #	Bond and Capital Funds	2007 Actuals	2008 Actuals	2009 Actuals	2010 Actuals	2011 Actuals	2012 Budget	2012 Actuals
2001	Bond Redemption - Revenue	2,993,794	2,984,824	3,162,834	2,944,891	2,934,293	2,980,999	1,856,042
2001	Bond Redemption - Expends	2,732,241	3,192,490	3,375,539	3,078,512	2,966,444	2,980,999	1,891,102
3061	Capital Improvement - Revenue	1,241,991	513,914	672,741	612,554	588,506	758,981	1,085,347
3061	Capital Improvement - Expends	1,446,548	808,022	827,552	437,903	459,660	758,981	311,033

Fund Types

Fund accounting is a method of accounting commonly used by governments and non-profits. In fund accounting, money is segregated into separate “pots,” or “funds,” based on source and/or allowable use of revenues.

In Washington State, different types of funds are distinguished not only by the restrictions on their sources and uses of funds, but also by their numbering systems. “**General funds,**” generally unrestricted in use, begin with a “0.” “**Special revenue funds,**” which have external restrictions on the use of their revenues, begin with a “1.” “**Debt service funds,**” of which the County has only one, begin with a “2,” and “**capital projects funds**” with a “3” (see fund numbers in table above).

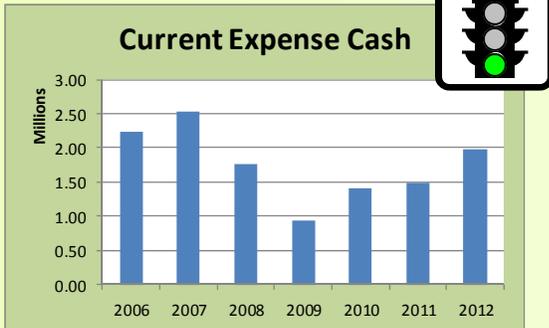
“**Enterprise funds,**” which act as mini-businesses within the government, begin with “4.” Examples are our Solid Waste and Stormwater Funds, discussed on page 10. The final fund type used in San Juan County is “**internal service funds.**” Internal service funds, which begin with a “5,” are used to account for the financing of goods or services provided by one department or agency to other departments or agencies, typically within the same government, on a cost reimbursement basis. San Juan County has two internal service funds, the Equipment Rental & Revolving (ER&R) Fund, and the Information Technology (IT) Services Fund.

Financing Operations — Cash & Debt

Cash

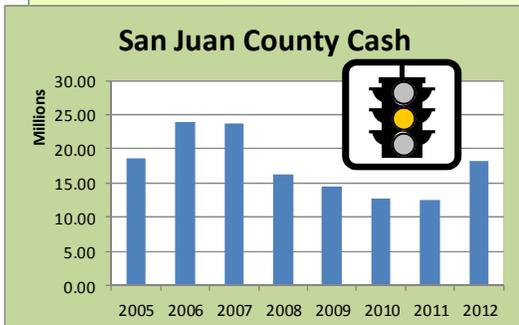
Cash reflects an entity’s ability to carry on its operations. Without adequate cash, entities may have to resort to debt to finance operational activities – something which many Washington counties (but not San Juan) have done in the last few years.

Total cash in San Juan County dropped precipitously when the recession hit the county in 2008. Lower revenue drove the dive, accompanied by an inability to decrease spending as fast as revenue decreased. In 2009, the County Council took two major steps: It reduced the County budget by one million dollars, and it adopted a formal reserve policy. The reserve policy included a guideline of maintaining 10% operating cash reserves in the general fund. As a result, cash in the general fund turned around quickly in 2010, and has continued to recover in 2011 and 2012.



County-wide cash was slower to recover, dropping every year from 2006 through 2011. A large part of the drop was because of decreases in Land Bank cash and in County Roads cash, with Roads dropping 3.5 million dollars in 2008 alone, and the combined Land Bank funds dropping 8.6 million over a period of five years.

In 2012, however, both funds recovered, contributing to a significant upswing in County cash. Yet 2012’s increase,



while positive, is deceptive. Late in the year, the County issued almost five million dollars in new or refunded general obligation debt. The new portions of that debt, for Parks’ Odlin project, for new Land Bank purchases, and for Solid Waste landfill monitoring, had not yet been spent by the end of the year. So the debt increased cash on a temporary basis only, as the cash will be spent in 2013.

Debt

Debt is not a dirty word. Debt is an appropriate way to pay for long-term capital investments. The amount of debt Washington counties can incur is limited by state law. Counties can incur up to 1.5% of the county’s assessed valuation for non-voted debt, and an additional 1% for debt voted in by the people. On a practical level, no one would suggest that 2.5% of AV is an appropriate amount of debt; still, San Juan County’s very low debt relative to the legally allowed amount indicates sound financial health.

In 2012, San Juan County debt increased. Part of the increase was the substitution of an external bond for \$800,000 of interfund loans to Solid Waste. The rest was the aforementioned loans for the Odlin Park project, Land Bank new purchases, and landfill monitoring in Solid Waste. Notably, in setting a very favorable issuer rating for this latest round of debt, Moody’s singled out the County’s fundamentally sound economic base, its reserve policies, and its low debt ratio. Even with the new debt, the County’s external debt load remains at only \$16,940,116, or .21% of assessed valuation, as opposed to \$15,653,562, or .19%, at the end of 2011.

San Juan County Debt*		
	2011	2012
Assessed Valuation	8,136,499,332	8,006,914,034
Permitted Debt (2.5%)	203,412,483	200,172,851
Actual Debt	15,653,562	16,940,116
% of AV	0.19%	0.21%

*Excludes Compensated Absences

